Managing Corporate Reputation:

What senior executives need to know

If reputational risk is a top strategic risk, why don't business leaders take it more seriously?

When it comes to corporate reputation management, the stakes couldn't be higher. Corporate reputation derives from a company's fundamental organizational activities. As such, it lies at the very crux of business value, implicating every department in reputation risk management.[i]

That's not all. Reputation is the baseline companies need to maintain in order to remain viable, especially companies with a strategic customer focus. But sustaining a healthy baseline isn't easy. In the last few years in particular, indicators have shown that the corporate reputation risk environment has only gotten more hostile to business.

For starters, social channels now constitute the primary informational market on which corporate reputation is traded. Ninety percent of consumers read online reviews before visiting a business.[ii] Those online reviews impact roughly two thirds of all purchasing decisions.[iii]

In addition, analysts have also picked up on a persistent erosion of trust in business and business leaders, catalyzed by the financial crisis. According to the Edelman Trust Barometer, only 52 percent of people said they trusted businesses to do the right thing.[iv] If that weren't bad enough, last year 63 percent of people said that CEOs are not at all or somewhat credible, a 12-point drop from the year prior.[v]

Irrespective of size, industry, and go-to-market, all businesses are navigating those fierce reputational headwinds. And the risk of getting reputation management wrong is significant. That's because reputational issues threaten the following:

- **Lost revenue and higher customer acquisition costs** from the loss of current and future customers.
- **Increased recruitment costs and decreased employee productivity** from the inability to recruit top talent and losing top talent. A bad reputation costs a company at least 10 percent more per hire, according to Harvard Business Review.[vi]
- **Reduced efficiencies, higher operational costs, and fewer channels to market** from the loss of key business partners.
- **Increased cost of funding via credit or equity markets** from reticent investors.
- **More, direct regulation** from regulators bowing to public and/or political pressure.

Faced with such systemic risk and stark consequences, how are businesses reacting? The numbers paint a grim picture. Researchers have found that only 33 percent of companies are prepared to manage reputational threats on social, even though just as many firms actually experienced a social-media based reputational threat during the past 12 months.[vii] What's needed? A strategic reputation management initiative that starts in the C-suite. The following paper provides research-backed advice on how to get started.

The key ways companies get reputation management wrong

First things first, a company's reputation management initiative won't be the same as its brand management program. That's a common misperception that hinders the effectiveness of reputation management. It's true that reputation and brand management share common goals, namely marshalling positive sentiment about a company. But in more important respects, they are fundamentally different.

Brand is the perception people have of a company, product, or service. What they think or feel when they hear that company's name. Legendary advertiser, David Ogilvy described brand the best, "the intangible sum of a product's attributes."[viii] That is to say that brand is often more emotional content than factual information.

On the other hand, corporate reputation consists of collective judgments of a business based on assessments of financial, social, and environmental impacts attributed to the corporation over time.[ix] Where brand is focused on the customer, reputation hinges on the credibility that a company commands among a broad set of audiences – not just customers, but also employees, investors, regulators, journalists, communities, etc.[x]

Despite the distinction in meaning from brand, reputation management, when it's actually happening, is unfortunately taking place at the brand management or corporate affairs level. What's more, reputation management isn't being treated like a strategic function, one that necessitates C-level engagement.

That's not to say that individual teams aren't monitoring digital conversations to understand what their customers are saying. They are. And those teams are also responding to negative stories when those stories crop up. On the whole though, companies aren't developing an integrated capability to systematically understand and predict reputational risk. They are thus leaving themselves exposed to and unprepared for reputational crisis.

Getting started with corporate reputation management

What's required then? For starters, senior executives need to embrace a data-driven approach to corporate reputation management, one that's integrated across business units, especially the operational business units from whence many corporate crises actually emerge. In practical terms, managers across a business, especially in Business Continuity, Risk, and Crisis, need to be empowered to spot issues of reputational significance and report those issues up the chain of command.

So that reputation tracking doesn't quickly spiral into a free for all, companies will also have to deploy consistent tracking methodologies and technologies across the relevant business units. Sophisticated social sentiment analysis tools, in particular, monitor conversations on a company's social channels and determine the deeper contexts behind the digital exchanges.

Social sentiment technology also yields easily digestible data about what a company's constituents really feel about the business. In turn, the easily actionable data can help guide a company's response to crisis as well as measure (in real time) the reaction that that response engenders over social channels.

Just procuring social monitoring technology alone won't help though. Developing a reputation management competency at any business starts with a larger cultural commitment to listening and fact-finding. That commitment can only start at the top.

In conclusion, business leaders must remember that their company's reputation is one of the most valuable assets in the portfolio but also one of the easiest to lose. As Warren Buffett puts it: "It takes 20 years to build a reputation and five minutes to ruin it." Business leaders must buck the reputation headwinds and guard against reputational damage by developing an integrated, cross-functional approach to reputation management.

Citations

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